CIA/OER/S- 07556-75 ECONOMIC CONSTRAINTS

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MEMORANDUM FOR: [redacted]
NIO for Western Europe

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SUBJECT : Greece: Economic Constraints [redacted]

The economic contribution to the interagency assessment on Greece is enclosed. If you require further information, please call [redacted] or [redacted]

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Chief
Western Europe Branch
Industrial Nations Division
Office of Economic Research

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GREECE: ECONOMIC CONSTRAINTS

Athens' freedom of action is limited by fairly tight economic constraints. Inflation and the current account deficit are at scarcely tolerable levels while economic activity continues to lag. A program intended to raise employment and output sharply or a crash defense effort would cause prices and the external deficit to soar, as they did in 1973.

The Greek government is following moderately expansionary economic policies designed to lift the country gradually from recession without worsening inflation or the payments problem. On the fiscal side, a billion dollar deficit in the 1975 national budget is providing some stimulation; in the monetary area, credit has been eased gradually with housing, agriculture, small businesses, and export industries favored. Price controls have been removed from everything except hotel rooms, where they are intended to encourage tourism.

On the external scene, Athens continues to restrain imports with a licensing system and, in some cases, deposit requirements. The current account remains deeply in deficit, however, and the government is seeking large loans from the European Community and other sources.

Athens is pressing the European Community to allow full Greek membership at an early date but has little prospect of success.

In February of this year, industrial production was nearly 5% below the peak reached a year earlier, having recovered two-thirds of the 16% drop to the low of July 1974. For all of 1974, industrial production declined 2% and real gross national product 4%. Present mildly expansionary policies should put 1975 industrial production and GNP near the levels of 1973. Unemployment has not reached serious proportions despite the slump in production and the scarcity of jobs for emigrant workers in Western Europe. At the latest reading, the unemployment index was only two-thirds as high as in 1970.

In 1974, restrictive policies and a good harvest combined to cut inflation from the 30.6% rate registered the previous year to 13.5%, bringing it into line with price trends in most other countries. Although this year's increase in indirect taxes has raised the price level by an estimated 4.5%, the inflation rate for all of 1975 should be only slightly above last year's if present policies are continued.

Restraints, recession, and the improved harvest of 1974 kept the current account deficit to the $1.2 billion level reached in 1973. The higher cost of oil was nearly offset by gains elsewhere in the trade account, while increased earnings from transport services outweighed reductions in worker remittances and earnings from tourism. In the first quarter of this year, the deficit was $87 million less that in the like portion of 1974, thanks to rapid growth of merchandise exports and stagnation of imports. For the remainder of the year, however, Athens will do well to hold the deficit to the rate of a year ago. Stocks of imported materials have been depleted and economic activity is picking up, while receipts from tourism and worker remittances remain weak and demand for shipping is soft.

In these circumstances, borrowing will have to approximate the $1 billion of last year, which included net official borrowing of $400 million. Greece should not have excessive difficulty finding lenders, however, or in coping with the rapidly rising cost of debt service. Looking further ahead, payments problems should fade as economic recovery in Western Europe lifts worker remittances, earnings from tourism, and Greek exports while development of domestic oil and lignite deposits reduces dependence on expensive imported energy.